MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

BAC4664 – INTERNAL AUDITING

(All sections / Groups)

07 MARCH 2018
9.00 a.m. - 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 3 pages excluding cover page with 5 Questions only.
2. Attempt all **FIVE** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

The International Professional Practices Framework (IPPF) provides a structural blueprint that facilitates consistent development, interpretation and application of concepts, methodologies and techniques used to the internal audit profession.

Internal Auditors are expected to apply and uphold the following principles:

- Integrity
- Objectivity
- Confidentiality
- Competency

Required:
Explain the rules of conduct for each of the four principles above.

(Total: 20 marks)

QUESTION 2

Rahman is the Chief Audit Executive for Teguh Bhd, a listed plantation-based company. In the recent years, the internal audit staff have been absorbed to other department since the management discovered that the cost to maintain an internal audit function is very costly as compared to outsource the function to an external consultant. Therefore, the management has identified two firms below as capable to provide internal audit services for Teguh Bhd:

- Wawasan Financial Consultants (WFC) is a local firm specialising in providing internal audit services to clients (outsourcing) for many years. Wawasan does not audit financial statements or report to members.

  OR

- Suria & Co who is Teguh Bhd's external auditors and have offices in 80 countries and employ in excess of 75,000 staff.

Required:

i. Discuss the advantages and disadvantages of appointing WFC as internal auditors for Teguh Bhd.

(8 marks)

ii. Discuss the issues Suria & Co need to consider before they could accept the appointment of WFC as internal auditors for Teguh Bhd.

(7 marks)

Continued...

iii. Assume that an outsourcing company has been chosen to provide internal audit services. Describe the control activities that Teguh Bhd should apply to ensure that the internal audit service is being maintained to a high standard.

(5 marks)
(Total: 20 marks)

QUESTION 3

Board of Directors, audit committee and internal auditor are among the strong governance pillars of a company because good governance is the cornerstone of a successful and sustainable company.

Required:
Explain the roles of the board of directors, audit committee and internal audit in corporate governance.

(Total: 20 marks)

QUESTION 4

(a) Electronic commerce or e-commerce refers to business activities like sales and payments that transacted electronically through internet. It has changed the way of conducting a business and the risk associated with the e-commerce activities. Therefore, it also imposes challenges to external auditors and internal auditors. Auditors need to perform business risk assessment procedures to obtain an understanding of the entity's internal control arise from the e-commerce.

Required:
Discuss the internal auditors' focus in auditing clients' e-commerce transactions.

(10 marks)

(b) According to Near and Miceli (1998), whistle blowing is when an employee tells on an employer who is breaking the law. It is defined as *"disclosure by organisational members of illegal or illegitimate practices under the control of their employers, to persons or organisations that may be able to affect action"*.

Required:
Explain the two forms of whistleblowing and discuss the protection mechanism offered to whistleblower as prescribed in Malaysian Whistleblowing Protection Act (WPA) 2010.

(10 marks)
(Total: 20 marks)

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QUESTION 5

(a) International Standards for the Professional Practice of Internal Auditing requires internal auditors to communicate the engagement results. Besides, internal auditors are encouraged to acknowledge satisfactory performance in engagement communications. When releasing engagement results to parties outside the organisation, the communication must include limitations on distribution and use of the results.

Required:
Explain the pre-requisite of distributing internal audit reports to external stakeholders.

(10 marks)

(b) In 1980, there was a study conducted by Romney, Albrecht and Cherrington in the United States which identified the characteristics of fraud perpetrators in terms of personal background and psychological profile. The study found that fraud is less likely associated with people's background and profile; however, there is a common element in the fraud committed – the motives. Later, Albrecht in his book classified the motives of fraud as a fraud triangle which included pressure or incentives, opportunity, and rationalisation (moral justification).

Required:
Suggest initiatives to control the occurrence of fraud by eliminating opportunities for fraud.

(10 marks)
(Total 20 marks)

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